USN | | | | | | | | | | **12MBA25**

Second Semester MBA Degree Examination, June/July 2016
Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any THREE full questions from Q.No.1 to 6.***
2. Q.No. 7 & 8 are compulsory.
3. Use of present value and future value tables are permitted.

1 a. What is meant by venture capital financing? **(03 Marks)**

b. Discuss the factors which are relevant for determining dividend payout ratio. **(07 Marks)**

c. The capital structure of MNP Ltd. is as under:

9% debenture : ₹ 275000 ; 11% Preference shares : ₹ 225000

Equity shares (Face value ₹ 10 per share) : ₹500000

(i) ₹ 100 per debenture redeemable at par has 2% floatation cost and 10 years of maturity. The market price of debenture is ₹105.

(ii) ₹ 100 per preference share redeemable at par has 3% floatation cost and 10 years of maturity. The market price per preference share is ₹ 106.

(iii) Equity share has ₹ 4 floatation cost and market price per share of ₹ 24. The next year expected dividend is ₹ 2 per share with annual growth of 5%. The firm has a practice of paying all earnings in the form of dividends.

(iv) Corporate income tax is 35%.

Calculate the weighted average cost of capital (WACC) using market value weights. **(10 Marks)**

2 a. What is the difference between mergers and takeover? **(03 Marks)**

b. Explain the various advantages of having financial intermediaries in the financial markets. **(07 Marks)**

c. Discuss the various concepts of behavioural finance. **(10 Marks)**

3 a. How European options are different from American options? **(03 Marks)**

b. How much amount is required to be invested every year so as to accumulate ₹ 300000 at the end of 10 years if the interest is compounded annually at 10%? **(07 Marks)**

c. The directors of Alpha limited are contemplating the purchase of a new machine to replace a machine, which has been in operation in the factory for the last five years. Ignoring the interest, but considering tax at 50% of the net earnings. Suggest which of the two alternatives should be preferred? The following are the details:

	Old Machine	New Machine
Purchase price	₹ 40000	₹ 60000
Estimate life in years	10	10
Machine running hours per annum	2000	2000
Units produced per hour	24	36
Wages per running hour	₹ 3	₹ 5.25
Consumable stores p.a.	₹ 6000	₹ 7500
All other charges p.a.	₹ 8000	₹ 9000
Material cost per unit	₹ 0.50	₹ 0.50
Selling price per unit	₹ 1.25	₹ 1.25
Power p.a.	₹ 2000	₹ 4500

You may assume that the above information regarding sales and cost of sales will hold good throughout the economic life of both the machines. Calculate accounting rate of return and suggest whether replacement of old machine by new machine is profitable or not. [Assume straight line depreciation.] **(10 Marks)**

4 a. Distinguish money market from capital market. **(05 Marks)**

b. The following information is available for ABC & Co.:

EBIT	:	₹ 1120000
Profit before tax	:	₹ 320000
Fixed cost	:	₹ 700000

Calculate % change in EPS, if the sales are expected to increase by 5%. **(05 Marks)**

c. Y bought a TV costing ₹ 13000 by making a down payment of ₹ 3000 and agreeing to make equal annual payment for 4 years. How much would be each payment if the interest on unpaid amount be14% compounded annually. Also draw load amortization schedule for the same. **(10 Marks)**

5 a. What are the broad areas of financial decision making? Explain. **(05 Marks)**

b. What are the functions of a financial system? Explain. **(05 Marks)**

c. Discuss the benefits and costs of going public to raise long term finance. **(10 Marks)**

6 a. What are the factors influencing working capital requirements of a firm? Explain. **(05 Marks)**

b. The expected cash flow of a project are as follows:

Year	Cash flow
0	- 100000
1	20000
2	30000
3	40000
4	50000
5	30000

The cost of capital is 12%. Calculate the following :

(i) Net Present value
(ii) Benefits-cost ratio
(iii) Internal rate of return
(iv) Modified internal rate of return
(v) Payback period
(vi) Discounted payback period. **(15 Marks)**

7 a. Mr. Ramesh has decided to provide constant payment of ₹ 30,000 per month (approximately) for his family even after his death forever. How should he decide upon making the investment? **(05 Marks)**

b. Mehta Ltd. has calculated its WACC on book values as 11% and is using it as the discounting rate for capital budgeting. If you were the finance manager of the company which other measure(s) would you use? **(05 Marks)**

c. A company is considering certain investment proposal for its future investment and has been applying profitability index as the criteria for investing. Your chairman feels that there are better ways of decision making. Which method(s) is/are he is thinking of? Why? **(05 Marks)**

d. XYZ Ltd is planning to fund its working capital requirements by issuing 14% secured debentures. Which policy/approach is the company following? Is it advisable? **(05 Marks)**

8 A newly formed company has applied to a commercial bank for the first time for financing its working capital requirements. The following information is available about the projections for the current year.

Estimated level of activity: 104000 completed units of production plus 400 units of work-in-progress. Based on the above activity, estimated cost per unit is:

Raw material : ₹ 80 per unit
Direct wages : ₹30 per unit
Overheads excluding depreciation : ₹ 60 per unit
Total cost : ₹ 170 per unit
Selling price : ₹ 200 per unit

Raw materials in stock : Average 4 weeks consumption; Work-in-progress : (Assume 50% completion stage in respect of conversion cost), materials issued at the start of the processing.

Finished goods in stock: 8000 units ; Credit allowed by suppliers: Average 4 weeks ; Credit allowed to debtors/receivables : Average 8 weeks ; Lag in payment of wages : Average 1 ½ weeks. Cash at bank for smooth functioning is expected to be ₹ 25000. Assume that production is carried on evenly throughout the year (52 Weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

Find out the net working capital required. **(20 Marks)**

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